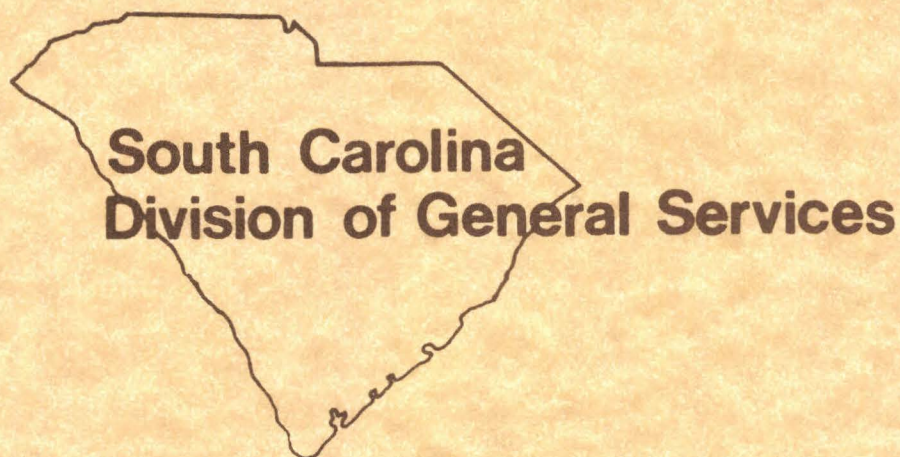


B8595G
2.A36-2
Copy 3



PROCUREMENT AUDIT AND CERTIFICATION

S. C. STATE LIBRARY

JUN 29 1989

STATE DOCUMENTS

AERONAUTICS COMMISSION

AGENCY

JULY 1, 1986 - MAY 31, 1988

DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600

CARROLL A. CAMPBELL, JR.
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL



JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

JAMES M. WADDELL, JR.
CHAIRMAN,
SENATE FINANCE COMMITTEE

ROBERT N. McLELLAN
CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

May 4, 1989

Mr. Richard W. Kelly
Division Director
Division of General Services
1201 Main Street, Suite 400
Columbia, South Carolina 29201

Dear Rick:

Attached is the final South Carolina Aeronautics Commission audit report and recommendations made by the Office of Audit and Certification. Since no certification above the \$2,500.00 allowed by law was requested, and no action is necessary by the Budget and Control Board, I recommend that this report be presented to them for their information.

Sincerely,

James J. Forth, Jr.
Assistant Division Director

MATERIALS MANAGEMENT OFFICE

Attachment

State Supply & Surplus Property Management
Surplus Property
Boston Avenue
W. Columbia, S.C. 29169
739-5490

Supply, Warehousing & IMS
1942 Laurel Street
Columbia, S.C. 29201
734-7919

Training & Research
300 Gervais Street
Annex 3
Columbia, S.C. 29201
737-2060

State Procurements &
Information Technology Management Office
1201 Main Street
Suite 600
Columbia, S.C. 29201
737-0600

Office of Audit & Certification
1201 Main Street
Suite 600
Columbia, S.C. 29201
737-0600

Installment Purchase Program
1201 Main Street
Suite 600
Columbia, S.C. 29201
737-0600

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter.....	1
Scope.....	4
Summary of Audit Findings.....	5
Results of Examination.....	7
Conclusion.....	13
Commission Response.....	14
Follow-up Review.....	15

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600

CARROLL A. CAMPBELL, JR.
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL



JAMES M. WADDELL, JR.
CHAIRMAN,
SENATE FINANCE COMMITTEE

ROBERT N. McLELLAN
CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

April 5, 1989

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the South Carolina Aeronautics Commission for the period July 1, 1986 through May 31, 1988. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and internal procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Aeronautics Commission is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgements by

MATERIALS MANAGEMENT OFFICE

State Supply & Surplus Property Management
Surplus Property Supply, Warehousing & IMS
Boston Avenue 1942 Laurel Street
W. Columbia, S.C. 29169 Columbia, S.C. 29201
739-5490 734-7919

Training & Research
300 Gervais Street
Annex 3
Columbia, S.C. 29201
737-2060

State Procurements &
Information Technology Management Office
1201 Main Street
Suite 600
Columbia, S.C. 29201
737-0600

Office of Audit & Certification
1201 Main Street
Suite 600
Columbia, S.C. 29201
737-0600

Installment Purchase Program
1201 Main Street
Suite 600
Columbia, S.C. 29201
737-0600

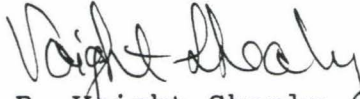
management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions as well as our overall examination of procurement policies and procedures were conducted with due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Aeronautics Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


R. Voight Shealy, Manager
Audit and Certification

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Aeronautics Commission and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We reviewed all procurement transactions which exceeded \$500.00 each for the period July 1, 1986 - May 31, 1988, for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Our review of the system included, but was not limited to, the following areas:

- (1) adherence to applicable laws, regulations and internal policy;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order registers;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) inventory and disposition of surplus property;
- (10) Minority Business Enterprise Utilization Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system for the South Carolina Aeronautics Commission (the Commission) produced findings and recommendations in the following areas.

PAGE

I. Procurements of Aircraft Maintenance Services

7

Section 11-35-1520(12) of the Consolidated Procurement Code states that, "the provisions of this section (Competitive Sealed Bidding) shall not apply to maintenance services for aircraft of the S.C. Aeronautics Commission." The Commission has interpreted this as an exemption from all purchasing procedures of the Code. However, the exemption is clear that it is from the competitive sealed bidding procedure only. All other sections of the Code apply to the Commission's procurements of aircraft maintenance services.

II. Procurements Made Without Competition

9

Eleven procurements greater than \$500.00 each were made without evidence of competition or sole source or emergency procurement determinations.

III. Internal Procurement Procedures Manual

11

Section 11-35-540(3) requires that all governmental bodies prepare an internal procurement operating procedures manual. Like some other small agencies, the Division of General Services accepted a statement of intent to comply with the Consolidated Procurement Code from the Commission in lieu of a full procedures manual. We have determined that a procedures manual should be developed.

IV. Procurement Procedures

12

Our observation of procurement procedures and internal controls resulted in several recommendations for improvement.

RESULTS OF EXAMINATION

I. Procurements of Aircraft Maintenance Services

Section 11-35-1520, Item 12, of the Consolidated

Procurement Code states:

Provision not to Apply. The provisions of this section (Competitive Sealed Bidding) shall not apply to maintenance services for aircraft of the S.C. Aeronautics Commission.

The Commission interpreted this exemption to mean that their procurements of maintenance services for aircraft were exempt from all purchasing procedures of the Consolidated Procurement Code.

However, the exemption is not listed in Section 11-35-710, Exemptions, of the Procurement Code. The exemption clearly states that the Commission's procurements of aircraft maintenance services are exempt from Section 11-35-1520, Competitive Sealed Bidding.

In our opinion, the exemption is clear, thus requiring no interpretation. All other sections of the Consolidated Procurement Code including, but not limited to the following, apply:

- (1) 11-35-1550 Small Purchases
- (2) 11-35-1560 Sole Source Procurements
- (3) 11-35-1570 Emergency Procurements

Federal Aviation Administration Regulations, as stated in CFR14, Chapter 1.1, provide the following definitions:

Maintenance means inspection, overhaul, repair, preservation, and the replacement of parts, but excludes preventive maintenance.

Preventative maintenance means simple or minor preservation operations and the replacement of small standard parts not involving complex assembly operations.

We recommend that the exemption provided the Commission from the competitive sealed bidding section of the Procurement Code in the procurement of aircraft maintenance be applied in accordance with the Federal Aviation Administration's definition of maintenance as stated above. Further, we recommend that the exemption be applied as it reads - from Section 11-35-1520, Competitive Sealed Bidding. Competition is required under Section 11-35-1550 for procurements of aircraft maintenance services up to \$2,500.00. If appropriate, Section 11-35-1560, Sole Source Procurement and Section 11-35-1570, Emergency Procurements, must be followed if such a situation exists.

Procurements of \$2,500.00 or more that are not emergencies or sole sources should be made with as much competition as is practicable in each situation. Formal competitive sealed bidding is not required but informal quotations should be solicited and documented. Such a procedure would ensure that the purposes and policies of the Consolidated Procurement Code as stated in Section 11-35-20, are met.

COMMISSION RESPONSE

The unique operations and maintenance requirements of the Commission make this area the most difficult to adapt to the Model Procurement Code. These difficulties resulted in the Commission being granted an exemption to 11-35-1520. This was necessary to avoid excessive and expensive delays in seeking sealed competitive bids for aircraft maintenance parts and services. As you are aware, Materials Management has an approximate sixty-day (60) turn around time from requisition to issue of purchase order.

While the Commission's maintenance activity has always taken competitive bids for both parts and services, greater efforts will be taken to document these bids. Your suggestion of greater use of the "sole source" provision, where applicable, will also be considered.

II. Procurements Made Without Competition

Our examination of procurement activity at the Commission included a test of a sample of one hundred and twenty (120) transactions from the period July 1, 1986 through May 31, 1988. Eleven of these procurements were not supported by evidence of competition or by a sole source or emergency determination.

<u>Item</u>	<u>Voucher/P.O.</u>	<u>Amount</u>	<u>Item/Source Description</u>
1.	00336	\$1,188.15	Grass cutter repairs
2.	PO 4646	689.82	Repair shop gate
3.	PO 4936	748.70	Repair mule
4.	PO 4930	549.11	Repair mule
5.	PO 3292	629.90	Door repair
6.	00688	1,166.21	Bus repair (C.A.P.)
7.	00147	576.80	Program radio bands
8.	01109	1,416.95	Grass cutter repairs
9.	03188	2,122.31	Fax machine
10.	0714	2,056.36	Program radio bands
11.	00733	3,315.00	Fuel injector for truck

Regulation 19-445.2100, Subsection E, Item 2, which covers procurements from \$500.01 to \$1,499.99 requires "Solicitation of verbal or written quotes from a minimum of two qualified sources of supply." Items 1 through 8 above needed only documentation of two (2) telephone quotes to meet this requirement. However, this was not done.

Item 3 of this same section of the regulations, which covers procurements from \$1,500.00 to \$2,499.99 requires "Solicitation of written quotations from three qualified sources of supply..." Items 9 and 10 above fell into this category. However, this requirement was not met.

Section 11-35-1520 of the Procurement Code states, "Contracts amounting to two thousand, five hundred dollars or more shall be awarded by competitive sealed bidding except as otherwise provided in Section 11-35-1510." Regulation 19-445.2035 specifies that for procurements from \$2,500.00 to \$4,999.99 competitive sealed bids must be solicited from a minimum of three qualified sources. Item 11 above falls into this category.

Further, the Commission's procurement limit is \$2,500.00, meaning item 11 is an unauthorized procurement. As such, the Commission Director must request ratification of this procurement from the State Materials Management Officer. In accordance with Regulation 19-445.2015, the request must specify the facts and circumstances surrounding the acts, what corrective action is being taken to prevent recurrence, action taken against the individual(s) committing the acts, and documentation that the prices were fair and reasonable.

The Commission should comply with these regulations. When competition is solicited, documentation must be maintained as evidence. When a solicitation is anticipated to result in an award exceeding the agency certification limit, it must be forwarded to the Materials Management Office for disposition.

COMMISSION RESPONSE

A review of the eleven (11) items indicated nine (9) involved repair services less than \$2,500 where equipment was repaired and the final cost could not be known until the equipment was disassembled. One item of the eleven involved an equipment purchase where written bids were received, but they had become separated from the payment voucher in processing. The final item was an item that qualified as a sole source procurement and should have been treated as such. In each instance, we have incorporated your staff's suggestions on how to comply with Materials Management record keeping requirements. While we still have not found a completely workable solution on equipment repairs, your staff did suggest several procedures to deal with many of our procurements.

III. Internal Procurement Procedures Manual

The Commission has on file with the Materials Management Office a statement of intent dated August 4, 1983, to comply with the requirements of Procurement Code Section 11-35-540(3), which requires the development of an internal procurement operating procedures manual.

The statement of intent was acceptable in lieu of a formal procedures manual at the inception of the Procurement Code. This document allowed small agencies additional time to prepare a more comprehensive manual. As a result of our recent audit of the Commission's procurement activity, we have determined that a procedures manual should be developed.

This manual should incorporate the most current internal procedures and follow the recommended outline which we have provided.

COMMISSION RESPONSE

As a program toward agency wide standardization, the Commission began in 1986 to develop a series of procedures manuals. Included in these was a Procurement Manual which was further refined with input from Materials Management and your staff. A draft copy of this manual is included for your review and comments.

IV. Procurement Procedures

During our audit, we noted several procedural weaknesses which resulted in the following recommendations for improvement.

1. State Term Contract: Procurements made from state term contracts should be documented on the purchase order by referencing the contract numbers.
2. Purchase order: Purchase orders should be completed fully before they are authorized. This should include the unit prices, extensions and total of all line items.
3. Exempt Items: Procurements of exempt items should be noted as such.
4. Quote Documentation: When verbal or written quotes are solicited, the person obtaining the quotations should indicate their name on the telephone quote form or on the written quotations.

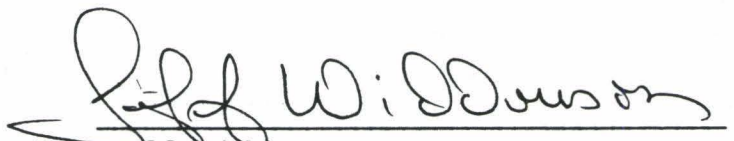
COMMISSION RESPONSE

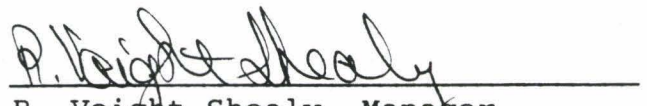
All findings in this section have been incorporated as agency policy in documenting purchase agreements. While each of these items were collected when applicable, on some purchase orders there were situations where this data was omitted. Special management attention will be given to insure that all necessary data is recorded and that purchase orders are complete.

CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings in the body of this report, we believe, will in all material respects place the South Carolina Aeronautics Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

In accordance with Code Section 11-35-1230(1) the Department should take this corrective action prior to October 31, 1988. Prior to that time, we will perform a follow-up review to determine progress in this area. Subject to this corrective action and because additional certification was not requested, we recommend that the Commission be allowed to continue procuring all goods and services, information technology, consulting services and construction services up to the basic level as outlined in the Procurement Code.


Jeff Widdowson
Audit and Certification Analyst


R. Voight Shealy, Manager
Audit and Certification



South Carolina Aeronautics Commission

DRAWER 1987, COLUMBIA, SOUTH CAROLINA 29202
TELEPHONE 803-739-5400

JOHN W. HAMILTON
DIRECTOR

March 21, 1989

Mr. R. Voight Shealy
Manager, Audit and Certification
1201 Main Street, Suite 420
Columbia, SC 29201

Dear Mr. Shealy:

I appreciate the effort you and your staff have given to the Aeronautics Commission during your recent audit of our procurement process. While I doubt that anyone would look forward to an audit, our first audit by your department was both helpful and informative. Mr. Widdowson of your office pointed out several areas where our procurement process could be improved and helped clarify areas where our unique program requirements had created some misunderstanding of the Model Procurement Code.

Please review our attached comments as well as our draft Internal Procurement Manual. I look forward to working with your office again to help insure that the Aeronautics Commission is fully implementing the Model Procurement Code.

Sincerely,

Alan W. Alexander
Asst. Director

AWA/vhm

Enclosures

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600

CARROLL A. CAMPBELL, JR.
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL



JAMES M. WADDELL, JR.
CHAIRMAN,
SENATE FINANCE COMMITTEE

ROBERT N. McLELLAN
CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

May 2, 1989

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have returned to the South Carolina Aeronautics Commission to determine the progress made toward implementing the recommendations in our audit report covering the period July 1, 1986 - May 31, 1988. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the Commission has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

Additional certification was not requested. Therefore we recommend that the Commission be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification

MATERIALS MANAGEMENT OFFICE

State Supply & Surplus Property Management
Surplus Property
Boston Avenue
W. Cola, S.C. 29169
739-5490

Supply, Warehousing & IMS
1942 Laurel Street
Cola, S.C. 29201
734-7919

Training & Research
300 Gervais Street
Annex 3
Cola, S.C. 29201
737-2060

State Procurements &
Information Technology Management Office
1201 Main Street
Suite 600
Cola, S.C. 29201
737-0600

Office of Audit & Certification
1201 Main Street
Suite 600
Cola, S.C. 29201
737-0600

Installment Purchase Program
1201 Main Street
Suite 600
Cola, S.C. 29201
737-0600

0 01 01 0102406 4

[illegible]

HIGHSMITH 45230

